CP Industries Holdings, Inc.

Financial Statements

As of and for the Years Ended
March 31, 2024 and 2023

CP Industries Holdings, Inc.

Contents

Independent Auditor's Report

To Mr. Vinodkumar Varma
Suresh Surana & Associates LLP
3rd Floor, A-Wing, Technopolis Knowledge Park,
Mahakali Caves Road, Andheri (E), Mumbai 400 093

In accordance with your *Group Reporting Instructions* dated 13 April 2024, we have audited, for purposes of your audit of the consolidated financial statements of Everest Kanto Cylinder Limited, the special purpose financial statements of CP Industries Holdings, Inc. as of 31 March 2024 and 2023 and for the years then ended.

Management's Responsibility for the special purpose financial statements

Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and the group's accounting policies for inclusion in the consolidated financial statements of Everest Kanto Cylinder Limited and is intended solely for that purpose. Management is also responsible for such internal controls as necessary to enable the preparation and fair presentation of component financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the US GAAP special purpose financial statements for the year ended 31 March 2024, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS") and in accordance with International Standards on Auditing (ISAs), adapted as necessary based on your instructions for purpose of your audit of the consolidated financial statements of Everest Kanto Cylinder Limited.

Auditing standards generally accepted in the United States of America and International Standards on Auditing (ISAs) require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the US GAAP special purpose financial statements for the year ended 31 March 2024 is free from material misstatement. As requested by Suresh Surana & Associates LLP (the "Group Auditor") we planned and performed our audit using the materiality level specified in the *Group Reporting Instructions* from the Group Auditor, which is different than the materiality level that we would have used had we been designing the audit to express an opinion on the financial information of the component alone.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the component financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the component financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the component financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the US GAAP special purpose financial statements for the year ended 31 March 2024 and 2023.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The conclusions reached in forming our opinion are based on the component materiality level specified by you in the context of the audit of the consolidated financial statements of the group.

Opinion

In our opinion, the accompanying special purpose financial statements referred to above present fairly, in all material respects based on component materiality, accordance with accounting principles generally accepted in the United States of America and in accordance with US GAAP.The accompanying special purpose financial statements are not intended to be a complete presentation of CP Industries Holdings, Inc.'s results of operations and financial position and do not contain all required informative disclosures.

Emphasis of Matter Regarding Going Concern

The accompanying special purpose financial statements have been prepared assuming that CP Industries Holdings, Inc. will continue as a going concern. CP Industries Holdings, Inc. has suffered historical losses, has an accumulated deficit, is in forbearance with its lending bank and is in violation of certain bank debt covenants at March 31, 2024. These items raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The special purpose financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Restriction on Use and Distribution

This accompanying special purpose financial statements have been prepared for purposes of providing information to Everest Kanto Cylinder Limited to enable it to prepare the consolidated financial statements of the group. As a result, the accompanying special purpose financial statements is not a complete set of financial statements of CP Industries Holdings, Inc. in accordance with accounting principles generally accepted in the United States of America and is not intended to present fairly, in all material respects, the financial position of CP Industries Holdings, Inc. as of March 31, 2024 and 2023, or the results of its operations, or its cash flows for the year then ended in accordance with these financial reporting frameworks. The special purpose financial information may, therefore, not be suitable for another purpose.

This report is intended solely for the information and use of the management of CP Industries Holdings, Inc. and Everest Kanto Cylinder Limited and Suresh Surana & Associates LLP and should not be used by anyone other than these specified parties.

Urish Popeck & Co., LLC

Urish Popeck & Co., LLC

May 16, 2024
Pittsburgh, PA

CP Industries Holdings, Inc.

Balance Sheets

March 31,		**2024**		2023
Assets				
Current Assets				
Cash	**$**	**934,348**	$	495,081
Cash - restricted		**375,032**		-
Accounts receivable, net		**4,623,013**		5,636,295
Receivable from related parties - Note 11		**-**		10,616
Inventories - Note 2		**17,826,705**		13,872,608
Prepaid expenses and other current assets		**3,243,556**		2,118,995
Total Current Assets		**27,002,654**		22,133,595
Property, Plant and Equipment, net - Note 3		**9,625,544**		9,522,188
Operating lease right-of-use assets - Note 10		**74,099**		108,285
Inventory (non-current), net - Note 2		**299,808**		814,591
Other assets - related party - Note 11		**480,000**		480,000
Total Assets	**$**	**37,482,105**	$	33,058,659

The accompanying notes are an integral part of these financial statements.

CP Industries Holdings, Inc.

Balance Sheets

March 31,		**2024**		2023
Liabilities and Stockholder's Equity (Deficit)				
Current Liabilities				
Revolving line of credit - Note 4	**$**	**4,633,061**	$	4,744,237
Accounts payable		**1,916,192**		2,669,188
Accounts payable - related parties - Note 11		**402,766**		240,564
Operating lease liabilities - Note 10		**40,802**		36,572
Contract liabilities		**11,623,689**		10,184,254
Accrued pension - current portion - Note 6		**-**		715,900
Post-retirement obligation - current portion - Note 7		**1,706**		19,032
Accrued expenses and other current liabilities		**185,429**		916,713
Total Current Liabilities		**18,803,645**		19,526,460
Long-term Liabilities				
Accrued pension - Note 6		**1,026,940**		967,708
Post-retirement obligation - Note 7		**123,417**		123,133
Operating lease liabilities - Note 10		**33,297**		71,713
Royalty expense payable - related party - Note 9		**6,345,744**		5,720,863
Notes payable - related parties - Note 5		**21,142,400**		21,142,400
Accrued interest - related parties - Note 5		**6,647,505**		5,351,378
Total Long-term Liabilities		**35,319,303**		33,377,195
Total Liabilities		**54,122,948**		52,903,655
Stockholder's Equity (Deficit)				
Common stock, $.01 par value, 1,000 shares authorized, 100 shares issued and outstanding		**1**		1
Paid-in capital		**8,999,999**		8,999,999
Accumulated deficit		**(25,849,565)**		(28,376,820)
Accumulated other comprehensive loss		**208,722**		(468,176)
Total Stockholder's Equity (Deficit)		**(16,640,843)**		(19,844,996)
Total Liabilities and Stockholder's Equity (Deficit)	**$**	**37,482,105**	$	33,058,659

The accompanying notes are an integral part of these financial statements.

CP Industries Holdings, Inc.

Statements of Operations and Comprehensive Income (Loss)

For the Years Ended March 31,		**2024**		2023
Net Sales	**$**	**31,799,775**	$	35,375,691
Cost of Goods Sold		**23,011,164**		29,162,244
Gross profit		**8,788,611**		6,213,447
Selling, General and Administrative Expenses		**3,619,831**		3,691,745
Legal settlement expense		**-**		2,500,000
Royalty Expense - Note 9		**667,472**		916,680
Income (Loss) from operations		**4,501,308**		(894,978)
Other Income (Expense)				
Other income		**6,502**		148,710
Interest expense		**(1,794,817)**		(1,143,771)
Total Other Income (Expense)		**(1,788,315)**		(995,061)
Income (Loss) Before Income Taxes		**2,712,993**		(1,890,039)
Provision for Income Taxes - Note 8		**185,738**		12,705
Net Income (Loss)		**2,527,255**		(1,902,744)
Other Comprehensive Income (Loss)				
Pension adjustment		**702,835**		77,827
Post-retirement plan adjustment		**(25,937)**		(23,792)
Comprehensive Income (Loss)	**$**	**3,204,153**	$	(1,848,709)

The accompanying notes are an integral part of these financial statements.

CP Industries Holdings, Inc.

Statements of Changes in Accumulated Other Comprehensive Income (Loss) by Component

For the Years Ended March 31, 2024 and 2023	Pension	Other Post-retirement Benefits	Total
Balance - March 31, 2022	$ (956,450)	$ 434,239	$ (522,211)
Other comprehensive income (loss) before reclassifications	297,544	15,300	312,844
Amounts reclassified from accumulated other comprehensive income (loss) - Notes 6 and 7	(219,717)	(39,092)	(258,809)
Comprehensive income (loss)	77,827	(23,792)	54,035
Balance - March 31, 2023	$ (878,623)	$ 410,447	$ (468,176)
Other comprehensive income (loss) before reclassifications	345,528	12,899	358,427
Amounts reclassified from accumulated other comprehensive income (loss) - Notes 6 and 7	357,307	(38,836)	318,471
Comprehensive income (loss)	702,835	(25,937)	676,898
Balance - March 31, 2024	$ (175,788)	$ 384,510	$ 208,722

The accompanying notes are an integral part of these financial statements.

CP Industries Holdings, Inc.

Statements of Changes in Stockholder's Equity (Deficit)

For the Years Ended March 31, 2024 and 2023	Common Stock	Paid-in Capital	Accumulated Equity (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholder's Equity (Deficit)
Balance - March 31, 2022	$ 1	$ 8,999,999	$ (26,474,076)	$ (522,211)	$ (17,996,287)
Net loss	-	-	(1,902,744)	-	(1,902,744)
Pension adjustment	-	-	-	77,827	77,827
Post-retirement plan adjustment	-	-	-	(23,792)	(23,792)
Balance - March 31, 2023	1	8,999,999	(28,376,820)	(468,176)	(19,844,996)
Net income	-	-	2,527,255	-	2,527,255
Pension adjustment	-	-	-	702,835	702,835
Post-retirement plan adjustment	-	-	-	(25,937)	(25,937)
Balance - March 31, 2024	1	$ 8,999,999	$ (25,849,565)	$ 208,722	$ (16,640,843)

The accompanying notes are an integral part of these financial statements.

CP Industries Holdings, Inc.

Statements of Cash Flows

For the Years Ended March 31,		**2024**		2023
Cash Provided by (Used for) Operating Activities				
Net income (loss)	**$**	**2,527,255**	$	(1,902,744)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization		**922,068**		1,216,488
Inventory reserve for slow-moving inventory		**214,811**		1,066,700
Changes in				
Accounts receivable		**1,013,282**		(2,732,225)
Accounts receivable - related parties		**10,616**		-
Prepaid expenses		**(1,124,561)**		1,419,043
Inventories		**(3,654,125)**		(4,500,301)
Accounts payable		**(752,996)**		(651,475)
Accounts payable - related parties		**162,202**		232,461
Accrued expenses		**564,843**		1,629,776
Contract liabilities		**1,439,435**		4,176,394
Accrued pension and post retirement		**3,188**		(711,924)
Royalty expense payable		**624,881**		916,680
Net Cash Provided by Operating Activities		**1,950,899**		158,873
Cash Used for Investing Activities				
Acquisitions of property, plant and equipment		**(1,025,424)**		(943,982)
Net Cash Used for Investing Activities		**(1,025,424)**		(943,982)
Cash Provided by (Used for) Financing Activities				
Net (payments) borrowings under revolving line of credit		**(111,176)**		1,739,746
Payments made on long-term debt		**-**		(473,997)
Net Cash Provided by (Used for) Financing Activities		**(111,176)**		1,265,749
Net increase in Cash, Cash Equivalents and Restricted Cash		**814,299**		480,640
Cash, Cash Equivalents and Restricted Cash - beginning of year		**495,081**		14,441
Cash, Cash Equivalents and Restricted Cash - end of year	**$**	**1,309,380**	$	495,081
Supplemental Disclosure of Cash Flow Information				
Cash paid during the year for interest	**$**	**1,794,817**	$	1,143,771

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Business

CP Industries Holdings, Inc. (CPI) is a wholly owned subsidiary of EKC Hungary Korlátolt Felelösségü Társaság (EKC Hungary), which is a wholly owned subsidiary of Everest Kanto Cylinder Ltd. (EKCL). CPI is located in McKeesport, Pennsylvania and specializes in manufacturing various size and diameter seamless pressure vessels for above ground storage and transportation of various highly pressurized gases. CPI's products are sold to customers such as industrial gas producers and suppliers, the natural gas alternative fuel industry, chemical and petrochemical processing facilities, prime contractors to the U.S. Department of Defense, NASA, public utilities and gas transportation companies.

Liquidity and Going Concern

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the year ended March 31, 2024, the Company incurred a net income of $2,527,255, has an accumulated deficit of $25,849,565, is in violation of its debt covenants at March 31, 2024, and has substantially drawn all available borrowings on its revolving line of credit. The Company currently plans to fund its operations and current obligations through increasing net sales and improving its gross profit. If the Company is unable to increase sales, improve gross profit, return to profitability and generate cash flows from operations sufficient to support its obligations the Company may seek additional funding from EKCL. The success of management's plans cannot be assured at this time.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (cont.)

Labor Concentration

Approximately 62% of the Company's employees are members of a union subject to a collective bargaining agreement. In November 2020, the union agreement was extended on a three-year contract, and is set to expire in November 2024. The Company expects the agreement will be renewed in the normal course of business.

Cash

Substantially all of the Company's cash is with one financial institution located in southwestern Pennsylvania.

Restricted Cash

We classified $375,032 and $0 as restricted cash as of March 31, 2024 and 2023, respectively. Cash is restricted for receipts and payable transaction restrictions with certain customers.

Accounts Receivable - Net

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for uncollectible accounts was approximately $419,249 and $157,000 at March 31, 2024 and March 31, 2023, respectively.

Inventories

Inventories are stated at the lower of cost or net realizable value. The Company uses the specific identification method of accounting for the cost of raw material pipe inventory, the first-in, first-out method of accounting for the cost of component parts, and average cost for composite raw material.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost including expenditures for additions and major improvements. Maintenance and repairs which are not considered to extend the useful life of assets are charged to operations as incurred. The cost of assets sold or retired and related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in other income (expense) for the year.

For financial reporting, depreciation of property, plant and equipment is computed on the straight-line method at rates calculated to amortize cost over the estimated useful lives of the assets.

1. Summary of Significant Accounting Policies (cont.)

Long lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary. Management has determined that no impairment existed at March 31, 2024 and 2023 based upon its undiscounted cash flows assessment.

Intangible Assets

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more frequently if impairment indicators arise. In conducting its impairment testing, the Company determines if qualitative or quantitative factors are to be used to evaluate the potential impairment in the carrying value of the Company's goodwill.

Deferred financing costs are deducted directly from the carrying value of the associated debt and are being amortized over the term of the debt using the straight-line method, which approximates the effective interest method (Note 4).

Research and Development

The Company expenses research and development costs as incurred. Total research and development expense was $38,217 for 2024 and $38,960 for 2023 included in other operating expenses.

Tax Status

The Company provides for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred taxes are also provided for operating losses that are available to offset future taxable income and credits that are available to offset future federal income taxes. A valuation allowance is established for any deferred tax asset for which realization is not considered likely.

1. Summary of Significant Accounting Policies (cont.)

The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with the asset and liability method. The first step is to evaluate the tax position for recognition by determining whether evidence indicates that it is more likely than not that a position will be sustained if examined by a taxing authority. The second step is to measure the tax benefit as the largest amount that is 50% likely of being realized upon settlement with a taxing authority. There were no amounts recorded at March 31, 2024 and 2023 related to uncertain tax positions.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. There were no interest and penalties recognized in the statements of operations during 2024 or 2023.

Revenue Recognition and Customer Concentration

On April 1, 2019, the Company adopted FASB ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606) using the modified retrospective method applied to those contracts that were not completed as of April 1, 2019. Results for reporting periods beginning after April 1, 2019 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under ASC 605, Revenue Recognition. ASC Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price.

The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Revenues are derived primarily through sale of products, which include steel and composite pressure vessels. Customers are generally billed 15% to 30% upfront with the remainder billed as the Company satisfies the performance obligations. Net payment terms typically range from 30 to 60 days from the invoice date. Upfront advances and deposits are recorded as contract liabilities until the performance obligation is satisfied. In addition, the Company recognizes revenue from long-term fixed-price production contracts. Billings under certain fixed-price contracts may be based upon the achievement of specified milestones, while some arrangements may require advance customer payment. The contracts do not include significant financing components since the contracts typically span less than one year.

1. Summary of Significant Accounting Policies (cont.)

Transfer of control is assessed based on the use of the product distributed and rights to payment for performance under the contract terms. Transfer of control and revenue recognition for the sale of the Company's products occur upon shipment or delivery of the product, which is when title, ownership and risk of loss pass to the customer and is based on the applicable shipping terms. The shipping terms depend on the customer contract. The long-term fixed-price production contracts are recognized over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time using the method deemed most appropriate to reflect the measure of progress and transfer of control. The recognition of revenues for long-term fixed-price production contracts is upon the satisfaction of certain production milestones specified in the contract, which is an output method. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

During the years ended March 31, 2024 and March 31, 2023, revenues recognized as of a point in time were \$24,325,083 and \$24,721,263, respectively, and revenues recognized over time were \$7,474,692 and \$10,654,428, respectively.

The Company recognizes revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Company estimates the amount of revenue to be recognized on variable consideration using the expected value (i.e., the sum of a probability-weighted amount) or the most likely amount method, whichever is expected to better predict the amount. During the years ended March 31, 2024 and March 31, 2023, there was no variable consideration.

Contract balances are created from the timing of revenue recognition, billings and cash collections which results in trade accounts receivable, contract assets and contract liabilities on the balance sheets. Trade accounts receivable include billed and unbilled amounts currently due from customers and represent unconditional rights to receive consideration. The amounts due are stated at their net estimated realizable value. Contract assets include unbilled amounts typically resulting from sales under fixed-price contracts when the revenue recognized exceeds the amount billed to the customer and the right to payment is conditional on something other than the passage of time. Amounts may not exceed their net realizable value. If the Company receives advances or deposits from customers, a contract liability is recorded. Additionally, a contract liability arises if items of variable consideration result in less revenue being recorded than what is billed. Contract assets and contract liabilities are generally classified as current.

Contract costs are the incremental costs of obtaining contracts as selling, general and administrative expenses when incurred if the amortization period of the asset that otherwise would have been recognized is one year or less.

Contracts generally include an assurance type warranty clause to guarantee that the services comply with agreed specifications and free from defects. The warranty period typically is 12 months or less from the date of service. Warranty expenses were not material for the years ended March 31, 2024 and 2023.

1. Summary of Significant Accounting Policies (cont.)

Two customers comprise approximately 22% of total accounts receivable at March 31, 2024 and two customers comprise approximately 52% of total accounts receivable at March 31, 2023. The Company also has five customers that together comprise approximately 62% of its sales in 2024 and 91% of its sales in 2023. Two customers comprise approximately 40% of 2024 sales and two customers comprise approximately 70% of 2023 sales.

Shipping and Handling

Shipping and handling fees billed to customers are classified in the statements of operations in net sales. The associated shipping and handling costs are classified in cost of revenues. Shipping and other transportation costs billed to customers of approximately $39,914 in 2024 and $26,355 in 2023 are included in net sales, whereas shipping and handling costs incurred are recorded in cost of sales.

Defined Benefit and Post-Retirement Benefit Plans

The Company records annual amounts relating to its pension and post-retirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods using the corridor method. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions. The Company recognizes the over-funded and under-funded status of defined benefit pension and other post-retirement plans as assets or liabilities in its balance sheets. The Company uses a March 31 measurement date for its defined benefit pension and other post-retirement plans.

Fair Value Measurements

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring and non-recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

1. Summary of Significant Accounting Policies (cont.)

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 - Observable inputs such as quoted prices in active markets for identical investments that the Company has the ability to access.

- Level 2 - Inputs include:
  a. Quoted prices for similar assets or liabilities in active markets;
  b. Quoted prices for identical or 6similar assets or liabilities in inactive markets;
  c. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly;
  d. Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

- Level 3 - Unobservable inputs in which there is little or no market activity for the asset or liability, which require the reporting entity to develop its own estimates and assumptions relating to the pricing of the asset or liability including assumptions regarding risk.

Recent Accounting Pronouncements

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of a financial asset using historical experience, current conditions, and reasonable and supportable forecasts, and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. Prior periods continue to be presented in accordance with previously applicable accounting standards. Management of the Company believes that the adoption of ASC 326 did not have a material impact on the financial statements.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

1. Summary of Significant Accounting Policies (cont.)

Subsequent Events

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the independent auditor's report (the day the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any item requiring recognition or disclosure.

2. Inventories

Inventories classified as long-term inventory represents various components, raw pipe, and work-in-progress which are slow moving in nature, and in certain cases not moved in numerous years, but remain in good saleable condition. Management expects to slowly sell items at prices greater than their historical carrying value. As the expected sales are likely to occur at a point in time beyond one-year, these inventories have been classified as long-term.

Inventories consist of the following at March 31:

		2024		2023
Raw materials	**$**	**6,551,128**	$	8,701,124
Work-in-process		**14,063,279**		8,179,156
		20,614,407		16,880,280
Less: Inventory obsolescence reserve (long-term portion)		**(2,487,894)**		(2,193,081)
Total inventories	**$**	**18,126,513**	$	14,687,199
Current portion	**$**	**17,826,705**	$	13,872,608
Non-current portion	**$**	**299,808**	$	814,591

3. Property, Plant and Equipment

Property, plant and equipment consists of the following at March 31:

	2024	2023
Land	$ 873,300	$ 873,300
Buildings and improvement	8,106,494	8,106,494
Machinery and equipment	30,989,003	29,342,148
Furniture and fixtures	1,082,907	1,204,612
Software	196,831	196,831
Construction in progress	248,412	748,138
	41,496,947	40,471,523
Less: accumulated depreciation	(31,871,403)	(30,949,335)
Property, Plant and Equipment - Net of Accumulated Depreciation	$ 9,625,544	$ 9,522,188

Depreciation and amortization expense amounted to approximately $922,000 for 2024 and $1,216,000 for 2023.

4. Notes Payable and Borrowings – Third Parties

Revolving line of credit, term debt, notes payable, and capital lease obligations consist of the following at March 31:

	2024	2023
Revolving line of credit	$ 4,633,061	$ 4,744,237
Long-term Debt	$ 4,633,061	$ 4,744,237

4. Notes Payable and Borrowings – Third Parties (cont.)

The Company has a credit agreement (as amended) with Citizens Bank of Pennsylvania (Credit Agreement) that includes a revolving line of credit (Revolver). The borrowings under the Credit Agreement are collateralized by substantially all assets of the Company, as well as the shares of the Company, which were pledged by EKC Hungary.

The revolving line of credit under the amended Credit Agreement provides the Company with working capital and it is also used for general corporate and business expenses. The maturity date of the Revolver is July 31, 2021 with maximum borrowings of $5,000,000. Commitment fees are equal to 0.25% of the average daily value of the unused Revolver.

In February of 2024, the Company entered into the tenth amendment to forbearance agreement and nineteenth amendment to the credit agreement. The amendment restates the definition of “expiration date” to mean May 15, 2024 and the “forbearance agreement” to mean that certain Forbearance and Nineteenth Amendment to Credit Agreement, dated as of February 29, 2024, by and among the Borrower, the Pledgor and the Bank. The Company has not extended the agreement as of the date of this report subsequent to the expiration on May 15, 2024.

Approximate future aggregate maturities of term debt (including the revolving line of credit) is presented in the table below. The maturities are stated at the total cash the Company is obligated to pay and not stated net of deferred loan costs.

Year Ending March 31,	Amount
2025	4,633,061
	$ 4,633,061

5. Notes Payable – Related Parties

The Company has a note payable agreement (as amended) with EKC International FZE, a wholly owned subsidiary of EKCL, which matures on March 31, 2025. The note payable is unsecured and bears interest at the three-month SOFR rate (5.35% at March 31, 2024) plus 1%. The outstanding borrowings and accrued interest are due on maturity. This note is subordinated to the Citizens Bank Credit Agreement (Note 4). The effective interest rate on the related party note payable was 6.35% at March 31, 2024.

The Company has accrued interest payable on the notes payable - related parties outstanding of approximately $6,647,505 at March 31, 2024 and $5,351,378 at March 31, 2023 which are included in accrued interest - related parties in the accompanying balance sheets. The Company incurred interest expense of approximately $1,343,491 in 2024 and $845,000 in 2023 on the notes payable.

6. Retirement Plans

The Company has a noncontributory defined benefit pension plan covering all union employees hired prior to June 1, 2006. The benefits are based on years of service and the applicable compensation levels under the plan. The Company's funding policy is to fund pension cost as determined by actuarial valuation. Contributions are intended to provide not only for benefits attributable to service to date but also for those expected to be earned in the future. The Company uses a March 31 measurement date for its plan.

The following table sets forth the funded status as of March 31:

		2024		2023
Projected and accumulated benefit obligation	**$**	**(4,739,489)**	$	(5,167,313)
Fair value of pension plan assets		**4,079,687**		3,483,705
Under-funded status at end of year	**$**	**(659,802)**	$	(1,683,608)

The following are the weighted-average assumptions used to determine the benefit obligation and net periodic pension cost at March 31:

	2024	2023
Discount rate	**4.95%**	3.40%
Expected rate of return	**5.00%**	5.00%

Other required disclosures consisted of the following:

		2024		2023
Components of pension expense				
Service costs	**$**	**22,171**	$	32,720
Interest cost on projected benefit obligation		**242,394**		200,999
Return on plan assets		**(172,545)**		(185,265)
Amortization of actuarial loss		**72,009**		167,428
Net pension expense of defined benefit pension	**$**	**164,029**	$	215,882
Benefits paid	**$**	**346,861**	$	376,384
Contributions	**$**	**485,000**	$	350,000

6. Retirement Plans (cont.)

The following table sets forth the reconciliation of items not yet reflected in net periodic pension cost and components of other changes recognized in other comprehensive income and accumulated other comprehensive income, which consist of actuarial gains:

	March 31, 2023	Amounts Arising During Fiscal Year	March 31, 2024
Comprehensive loss	$ (878,623)	$ 702,835	$ (175,788)

The Company is required to make contributions of approximately $485,000 to the plan in fiscal year 2024. Additional cash contributions may also be made at the discretion of the Company's management. The decrease in benefit obligation is due to the increase in discount rate and investment experience being more favorable than expected.

The following tables set forth the fair value of the plan assets as of March 31:

2024	Level 2	Total
Pooled separate account	$ 4,079,687	$ 4,079,687
Total	$ 4,079,687	$ 4,079,687

2023	Level 2	Total
Pooled separate account	$ 3,483,705	$ 3,483,705
Total	$ 3,483,705	$ 3,483,705

The pooled separate account represents an insurance contract under which plan assets are administered through pooled funds. The pooled separate account portfolio may include investments in money market instruments, mutual funds common stocks and government and corporate bonds and notes. At March 31, 2024 and 2023 substantially all investments in the pooled separate account were invested in twenty-one diversified mutual funds. Net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding as provided by the investment account manager and therefore the pooled separate account is classified in Level 2 of the fair value hierarchy. There are no unfunded commitments or redemption restrictions relating to the pooled separate accounts.

6. Retirement Plans (cont.)

The Company's asset allocation by asset category is as follows at March 31, 2024:

	2024	2023
Investments in pooled separate account		
Equity	**35%**	32%
Balanced	**11%**	9%
Income	**54%**	59%

The overall investment policy for the plan assets is to produce a total return commensurate with the portfolio's risk, the constraints of funding on-going plan benefit and expense requirements and the current opportunities in the investment market.

The Company's expected rate of return on plan assets is determined by the plan's historical returns and the targeted mix of investments.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year Ending March 31,	Amount
2025	$ 390,166
2026	375,548
2027	369,418
2028	367,274
2029	375,046
2030-2034	1,858,607

The Company also has two 401(k) savings plans which cover substantially all union and non-union employees. For both plans, the Company matches a percentage of the employees' contributions up to a maximum level. The matching contributions to the plans were approximately $13,200 for 2024 and $13,800 for 2023. There were no discretionary contributions made to the non-union employees' plan in 2024 or 2023.

7. Other Post-Retirement Benefit Plan

The Company has a post-retirement plan to provide certain post-retirement benefits for those employees identified in the current collective bargaining agreement. The Company uses a March 31 measurement date for its plan.

7. Other Post-Retirement Benefit Plan (cont.)

The following table sets forth the reconciliation of items not yet reflected in net periodic post-retirement benefit cost and components of other changes recognized in other comprehensive income and accumulated other comprehensive loss:

	Net (Gain) Loss	Net Prior Service Cost	Total
Balance - March 31, 2022	$ 271,292	$ 162,947	$ 434,239
Actuarial loss	15,300	-	15,300
Amount reclassified from accumulated other comprehensive loss			
Amortization of :			
Actuarial (gain) loss	-	(9,636)	(9,636)
Prior service credit	(29,456)	-	(29,456)
	(29,456)	(9,636)	(39,092)
Balance, March 31, 2023	$ 257,136	$ 153,311	$ 410,447
Actuarial loss	12,899	-	12,899
Amount reclassified from accumulated other comprehensive loss			
Amortization of :			
Actuarial (gain) loss	-	(9,636)	(9,636)
Prior service credit	(29,200)	-	(29,200)
	(29,200)	(9,636)	(38,836)
Balance, March 31, 2024	**$ 240,835**	**$ 143,675**	**$ 384,510**

7. Other Post-Retirement Benefit Plan (cont.)

The following is the weighted-average assumption used to determine benefit obligations and net periodic post-retirement benefit cost at March 31:

	2024	2023
Discount rate	**5.00%**	4.65%

Other information concerning the plan is as follows at March 31:

		2024		2023
Components of benefit gain				
Service costs	**$**	**823**	$	874
Interest cost on projected benefit obligation		**5,770**		4,828
Return on plan assets		**(29,200)**		(29,456)
Amortization of prior service cost		**(9,636)**		(9,636)
Net gain of other post-retirement plan	**$**	**(32,243)**	$	(33,390)
Benefits paid	**$**	**10,736**	$	13,197
Employer contribution	**$**	**10,736**	$	13,197

The benefits are not salary based. In general, for measurement purposes, an 10% annual rate of increase in the per capita cost of covered health benefits was assumed as of the measurement date decreasing to 7% over the following eight-year period and remaining at that level until 2030.

The Company expects to contribute approximately $10,000 to the plan in fiscal year 2024, which approximates estimated benefits.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Year Ending March 31,		Amount
2025	$	16,963
2026		16,742
2027		12,940
2028		14,471
2029		10,924
2030-2034		53,440

8. Income Taxes

The provision for (benefit from) income taxes consisted of the following at March 31:

	2024	2023
Currently payable	**$ 185,738**	$ 12,705
Deferred income taxes		
Net operating losses	**1,072,000**	110,000
Temporary differences	**70,000**	(531,000)
Valuation allowance	**(1,142,000)**	421,000
Provision for (benefit from) income taxes	**$ 185,738**	$ 12,705

The Company had the following deferred tax assets and liabilities at March 31:

	2024	2023
Non-current deferred tax assets (liabilities)		
Bad debt	**$ 122,000**	$ 46,000
Inventories	**714,000**	629,000
Non-deductible accruals	**3,552,000**	3,263,000
Property and equipment	**(1,093,000)**	(952,000)
Net operatig losses	**3,577,000**	4,649,000
Pension and post-retirement benefits	**149,000**	528,000
Non-current asset	**7,021,000**	8,163,000
Less: valuation allowance	**(7,021,000)**	(8,163,000)
Net non-current liability	**$ -**	$ -

8. Income Taxes (cont.)

At March 31, 2024, the Company has approximately $15,064,000 of federal and $8,649,000 of state net operating loss carryforwards. Approximately $5,280,000 of federal net operating loss carryforwards expire at various dates through 2035, while the remaining federal net operating loss carryforwards have no expiration. The state net operating loss carryforwards expire at various dates through 2042.

The Company's 2019 through 2022 tax years remain subject to examination by the Internal Revenue Service for federal tax purposes and the State of Pennsylvania.

Due to the uncertainty of future taxable earnings, the Company believes that it is more likely than not the deferred tax assets will be not be recognized and, therefore, a full valuation allowance is required to offset the deferred income tax assets. The change in valuation allowance was $1,142,000 and 421,000 for 2024 and 2023, respectively.

At March 31, 2022, the difference between the Company's effective rate and the federal statutory rates is due to permanent differences and the valuation allowance.

9. Trade Name License Agreement

The Company maintains a trade name licensing agreement (the Agreement) with EKC Hungary, a related party, under which the Company obtained the non-exclusive rights to use certain trade names and custom computer software. Under the Agreement, the Company is required to pay in quarterly installments, royalties in the amount of 3% of net sales. The Company accrued for but did not make royalty payments during the fiscal years ended March 31, 2024 and 2023.

10. Right-of-use Operating Leases

The Company leases certain manufacturing equipment and vehicles under operating lease agreements. Total rent expense was approximately $78,000 for 2024 and 2023. Future minimum operating lease payments are as follows:

Year Ending March 31,		Amount
2025	$	39,000
2026		31,884
2027		-
		70,884
Less effects of discounting		3,215
	$	74,099

10. Right-of-use Operating Leases (cont.)

During the year ended March 31, 2024, the Company had the following cash and non-cash activities associated with its leases:

		2024
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	34,186
Non-cash investing and financing activities:		
Additions to right-of-use assets obtained from operating lease	$	74,099

Short term lease costs for the year ended March 31, 2024 was approximately $37,669.

As of March 31, 2024, the weighted average remaining lease term for the Company's operating leases was 1.9 years.

		2024
Right-of-use assets	$	74,099
Operating lease liabilities:		
Lease liabilities - current portion	$	40,802
Lease liabilities	$	33,297

The Company does not have access to the rate implicit in the lease and applies the risk-free rate as the discount rate for all leases. The weighted average discount rate associated with operating leases as of March 31, 2024 was 2.59%.

10. Right-of-use Operating Leases (cont.)

Practical Expedients

The Company elected the following practical expedients:

a. Practical expedients which were elected as a package and applied consistently to all of its leases when applying Topic 842 to leases that commenced before the effective date of Topic 842:
   - The Company need not reassess whether any expired or existing contracts are or contain leases.
   - The Company need not reassess the lease classification for any expired or existing leases.
   - The Company need not reassess initial direct costs for any existing leases.

b. Risk-free interest rate used to calculate the lease liabilities as of April 1, 2022.

11. Related Party Transactions

EKC Europe GmbH, a related party and wholly owned subsidiary of EKC International FZE, provided engineering research and development services to the Company totaling approximately $33,000 in 2023 and 2022 which are included in selling, general and administrative expenses.

The Company previously prepaid EKCL for the purchase of certain raw material pipe which the Company has not received. The prepaid inventory has been classified within other assets in the accompanying balance sheets. Based on representation received from EKCL in May 2019, the Company anticipated $1,200,000 to be settled in cash prior to March 31, 2020. However, this was not finalized and no clear timeline had been established. Therefore, this amount has been classified as a non-current asset at March 31, 2024 and 2023. Total prepaid inventory amounts to approximately $480,000 at March 31, 2024 and March 31, 2023.

At March 31, 2024 and 2023, there are certain amounts included in receivables from related parties arising from transactions between the Company and EKC and its subsidiaries. These transactions and balances are in the normal course of business operations and are classified as a current asset at March 31, 2024 because they are anticipated to be paid within 12 months from the balance sheet date. The accounts payable - related parties is the result of the pipe purchases and services noted above.

12. Major Supplier

The Company purchased approximately 100% of its steel inventory from two suppliers in 2024 and 95% of its steel inventory from three suppliers in 2023. Company management believes there are adequate alternative suppliers available and that the loss of a major supplier would not materially interrupt business operations. At March 31, 2024 and 2023, accounts payable due one of these suppliers was approximately $468,000.

12. Major Supplier (cont.)

On March 23, 2018, a 25% tariff on steel imports from certain countries into the United States was imposed by the United States Department of Commerce. Purchases from two of the Company's three largest steel vendors are subject to this tariff. The Company has applied to the Department of Commerce to be exempted from the tariffs and has received exemptions on certain raw materials. Other applications are still pending decisions from the Department of Commerce. As of March 31, 2024 and 2023, the Company has paid approximately $155,669 and $275,534 in tariffs to the Department of Commerce, respectively.

13. Commitments and Contingencies

Litigation, Claims and Assessments

The Company may be party to lawsuits and other legal matters arising in the normal course of business. Management is not aware of any legal proceedings that could have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Environmental

Due to the nature of its industry, the Company is exposed to environmental risks. The Company has various policies and procedures to avoid environmental contamination and to mitigate the risks of environmental contamination. The Company conducts periodic reviews to identify changes in its environmental risk profile. Liabilities are accrued when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated. The Company is not aware of any environmental claims existing at March 31, 2024. However, there can be no assurance that current regulatory requirements will not change or unknown past noncompliance with environmental laws will not be discovered on the Company's properties.

Legal Settlement

On May 31, 2017, the Company entered into a supply agreement with a customer to provide hydrogen cylinder vessels. In August 2020, a non-conformance defect was identified on the supplied hydrogen cylinder vessels under the supply agreement. Subsequently, in November of 2021 the customer cancelled the supply agreement and sought damages related to the Company's non-performance. The Company and the customer entered into a settlement agreement on December 20, 2022 for $2,500,000. The Company recorded the $2,500,000 settlement in operations in the accompanying Statements of Operations and Comprehensive Income (Loss) during the fiscal year ended March 31, 2023. The settlement required an upfront payment of $1,500,000 and eight monthly installments of $125,000 beginning on January 31, 2023. At March 31, 2023, the Company had remitted $1,875,000 and accrued $625,000 which is included in accrued expenses and other current liabilities in the accompanying Balance Sheets. At March 31, 2024, the Company has settled all dues.